

HOPKINTON MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2009

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HOPKINTON MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert DeShaw	Chairperson	Mar 31, 2011
Richard Harris	Vice-chairperson	Mar 31, 2015
Jerry Weber	Director	Mar 31, 2013
Douglas Melchert	Superintendent	Indefinite
Cynthia Kemp	Board Secretary/Clerk	Indefinite
Chris Lyons	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Hopkinton Municipal Utilities:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of Hopkinton Municipal Utilities (a component unit of the City of Hopkinton, Iowa) as of and for the year ended June 30, 2009, which collectively comprise the Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Utility officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the Utilities have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the modified cash basis fund balances at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to verify the distribution by fund of the modified cash basis fund balances at July 1, 2008, as discussed in the

preceeding paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of Hopkinton Municipal Utilities at June 30, 2009 and the respective changes in modified cash basis financial position and cash flows, where applicable, for the year then ended in conformity with the basis of accounting described in Note 1.

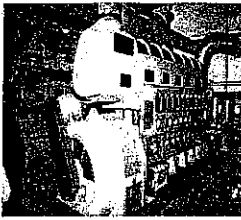
In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2009 on our consideration of Hopkinton Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9 and 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

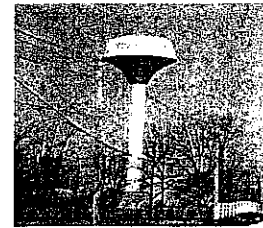
Elkader, Iowa

December 4, 2009

Deety, Donald Company



Hopkinton
Municipal Utilities
ELECTRIC & WATER
111 FIRST ST. SE - P O BOX 129
HOPKINTON, IOWA 52237-0129
(563)926-2480
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Hopkinton Municipal Utilities (the Utility) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow. Bear in mind that Chapter 11 of the Code of Iowa does not require the Utility to have its financial statements audited. Therefore, any financial information presented for 2008 has not been audited.

2009 FINANCIAL HIGHLIGHTS

The electric fund had an increase in revenues of 12.5%, along with an increase in expenses of 2.2%.

The water fund had a decrease in revenues of 10.5%, along with a decrease in expenses of 39.7%.

Net assets of the electric fund and the water fund increased 2.5% and 16.3% respectively. Total Utility assets increased 3.2%.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Government-wide and Fund Financial Statements have been combined as the Utility has only business-type activities. The total column provides information about the activities of Hopkinton Municipal Utilities as a whole and provide an overall view of the Utility's finances.

The Fund Financial Statements consist of the electric and water fund columns and tell how services were financed in the short term as well as what remains for future spending. Fund financial statements report Hopkinton Municipal Utilities' operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Hopkinton Municipal Utilities acts solely as an agent or custodian for the benefit of others.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

BASIS OF ACCOUNTING

The Hopkinton Municipal Utility Board of Trustees has elected to present their financial statements using a modified cash basis of accounting. Annual depreciation of fixed assets is not a practice of the Utility. It differs from the cash basis of accounting in that billings to customers are based on meter readings at stated rates, and are recorded as revenue in the corresponding meter-reading period, which are presented as accounts receivable. Only liabilities relating to amounts billed or collected from customers or the City, such as sales tax, meter deposits or sewer revenue, are included as liabilities of the Utility. As a result of using the modified cash basis of accounting, the Utility has not recorded fixed assets in these financial statements.

FINANCIAL ANALYSIS OF THE UTILITY

Net assets may serve over time as a useful indicator of financial position. The Utility's net assets increased by \$ 35,692 from fiscal year 2008 to fiscal year 2009.

Statement of Net Assets - Modified Cash Basis (Expressed in Thousands)

	Year Ended June 30,	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 26	66
Certificates of deposit	1,010	1,010
Accounts receivable	49	46
Due from City	70	-
Total assets	1,155	1,122
LIABILITIES		
Accounts payable and accrued sales tax	1	4
NET ASSETS		
Unrestricted	<u>\$ 1,154</u>	<u>1,118</u>

The following shows the changes in net assets for the utility:

Statement of Activities and Changes in Net Assets-Modified Cash Basis
(Expressed in Thousands)

	Year Ended June 30,	
	2009	2008
Operating Revenues:		
Charges for Services	\$ 528	458
Miscellaneous	52	54
Total operating revenues	580	512
Operating Expenses:		
Salaries and wages	109	112
Employee benefits	44	40
Materials and supplies	43	46
Maintenance and repairs	58	114
Purchased power	268	220
Administrative and general	51	51
Miscellaneous	8	12
Total operating expenses	581	595
Operating income (loss)	(1)	(83)
Other revenue		
Investment income	37	47
Change in net assets	36	(36)
Net assets-beginning of year	1,118	1,154
Net assets-end of year	\$ 1,154	1,118

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility amended its budget once. The amendment, approved on June 9, 2009, resulted in an increase in budgeted expenses of \$ 75,000. Total budget expenses were \$ 667,850. Budget revenues of \$ 593,800 were exceeded by \$ 23,000.

DEBT ADMINISTRATION

At June 30, 2009 and 2008, the Utility had no long-term debt. The Utility does not anticipate any immediate needs that would require long-term financing.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Hopkinton Municipal Utilities' appointed officials considered many factors when setting the fiscal year 2010 budget and fees that will be charged for Utility services.

Although power costs increased by nearly 22% in 2009, a significant increase over 2008, power rates are expected to stabilize in 2010. The City population is trending downward.

These indicators were taken into account when adopting the budget for 2010. Amounts available for appropriation in the operating budget are \$ 608,800, an increase of 2.5% over the final fiscal 2009 budget. Because little increase in revenues is anticipated, no new major initiative are budgeted for fiscal 2010. In fact, budgeted expenses are \$ 65,050 less than the final fiscal 2009 budget.

If these estimates are realized, the Utility's budgeted cash balance is expected to increase approximately \$ 6,000 by the close of 2010.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Cynthia Kemp, Utility Board Secretary, 111 First Street SE, P.O. Box 129, Hopkinton, Iowa 52237-0129.

BASIC FINANCIAL STATEMENTS

HOPKINTON MUNICIPAL UTILITIES
 (A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)
 STATEMENT OF NET ASSETS-MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 June 30, 2009

ASSETS	Electric Fund	Water Fund	Total
Cash and cash equivalents	\$ 2,732	23,710	26,442
Certificates of deposit	975,000	35,000	1,010,000
Accounts receivable	43,402	5,176	48,578
Due from City of Hopkinton	70,000	-	70,000
Total assets	1,091,134	63,886	1,155,020
LIABILITIES			
Sales tax payable	816	305	1,121
NET ASSETS			
Unrestricted	\$ 1,090,318	63,581	1,153,899

See notes to financial statements.

HOPKINTON MUNICIPAL UTILITIES
 (A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS-MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 Year Ended June 30, 2009

	Electric Fund	Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 480,069	47,606	527,675
Miscellaneous	47,571	4,597	52,168
Total operating revenues	527,640	52,203	579,843
OPERATING EXPENSES			
Salaries and wages	109,143	-	109,143
Employee benefits	36,657	7,157	43,814
Materials and supplies	40,162	2,455	42,617
Maintenance and repairs	37,990	19,577	57,567
Purchased power	268,490	-	268,490
Administrative and general	42,488	8,472	50,960
Miscellaneous	5,960	1,825	7,785
Total operating expenses	540,890	39,486	580,376
Operating income (loss)	(13,250)	12,717	(533)
NON-OPERATING REVENUES			
Investment income	35,021	1,204	36,225
Excess of revenues over expenses	21,771	13,921	35,692
Operating transfers in (out)	5,000	(5,000)	-
Change in net assets	26,771	8,921	35,692
Net assets-beginning of year	1,063,547	54,660	1,118,207
Net assets-end of year	\$ 1,090,318	63,581	1,153,899

See notes to financial statements.

HOPKINTON MUNICIPAL UTILITIES
 (A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)
 STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 Year Ended June 30, 2009

	Electric Fund	Water Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 505,522	47,459	552,981
Cash paid to employees	(145,800)	(7,157)	(152,957)
Cash paid to suppliers	(393,596)	(33,272)	(426,868)
Other receipts	16,231	4,597	20,828
Net cash provided (used) by operations	(17,643)	11,627	(6,016)
Cash Flows from Noncapital Financing Activities:			
Interfund Transfers	5,000	(5,000)	-
Cash Flows from Investing Activities:			
Loan to City of Hopkinton	(70,000)	-	(70,000)
Investment income received	35,021	1,204	36,225
Net cash provided (used) by investing activities	(34,979)	1,204	(33,775)
Net increase (decrease) in cash and cash equivalents	(47,622)	7,831	(39,791)
Beginning cash and cash equivalents	50,354	15,879	66,233
Ending cash and cash equivalents	\$ 2,732	23,710	26,442
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (13,250)	12,717	(533)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Bad debt	3,060	415	3,475
(Increase) in accounts receivable	(5,861)	(238)	(6,099)
(Decrease) in accounts payable	(1,671)	(1,223)	(2,894)
Increase (decrease) in sales tax payable	79	(44)	35
Net cash provided used by operations	\$ (17,643)	11,627	(6,016)

See notes to financial statements.

HOPKINTON MUNICIPAL UTILITIES
 (A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 June 30, 2009

	<u>Agency</u>
ASSETS	
Cash	\$ 3,297
Accounts receivable	<u>12,424</u>
Total assets	<u>15,721</u>
LIABILITIES	
Meter deposits payable	3,297
Due to City of Hopkinton	<u>12,424</u>
Total liabilities	<u>15,721</u>
NET ASSETS	<u>\$ -</u>

See notes to financial statements.

CITY OF HOPKINTON MUNICIPAL UTILITIES
 (A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)
 STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 Year Ended June 30, 2009

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash	\$ 3,222	545	470	3,297
Accounts receivable	11,962	135,980	135,518	12,424
Total Assets	<u>\$ 15,184</u>	<u>136,525</u>	<u>135,988</u>	<u>15,721</u>
LIABILITIES				
Meter deposits payable	\$ 3,222	545	470	3,297
Due to City of Hopkinton	11,962	135,980	135,518	12,424
Total Liabilities	<u>\$ 15,184</u>	<u>136,525</u>	<u>135,988</u>	<u>15,721</u>

See notes to financial statements.

HOPKINTON MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) Summary of Significant Accounting Policies:

The Hopkinton Municipal Utilities (the Utility) is a component unit of the City of Hopkinton, Iowa, which is a political subdivision of the State of Iowa. It was established in 1938 by a vote of the City and is governed by a three-member Board of Trustees who are appointed to six-year terms by the Hopkinton City Council. The Hopkinton Municipal Utilities is a public utility providing water and electrical service to the citizens of Hopkinton, Iowa.

A. Reporting Entity

For financial reporting purposes, Hopkinton Municipal Utilities has included all funds, organizations, agencies, boards, potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Utility are organized into two Enterprise Funds. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering

goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

The Utility also reports fiduciary funds which focus on net assets and changes in net assets. The Utility's fiduciary funds include the Agency Fund, which is used to account for assets held by the Utility as agent for other individuals and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Basis of Accounting

The Hopkinton Municipal Utilities maintains its financial records on the modified cash basis of accounting and the financial statements of the Utility are prepared on that basis. The modified cash basis of accounting does not give effect to fixed assets and certain accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the Utility in accordance with U.S. generally accepted accounting principles.

D. Assets and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets - Arising From Modified Cash Basis Transactions.

Cash Equivalents - The Utility considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Accounts Receivable - Billings to customers are based on meter readings at stated rates, and are recorded as revenue in the corresponding meter-reading period.

E. Internal and Interfund Balances and Activities

Interfund activity and balances, if any, are eliminated or reclassified in the financial statements as follows:

1. Interfund services - Services or purchases of goods and services between funds are reported as revenues and expenses.
2. City and Utility activity and balances - Resource flows between the City and the Utility are reported as if they were external transactions.

(2) Cash

The Utility's deposits in banks at June 30, 2009 were entirely covered by Federal depository insurance or by the State Sinking Fund in accord-

ance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility. At June 30, 2009 the Utility had \$ 1,010,000 invested in certificates of deposit with maturities ranging from 9 to 413 days.

(3) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Regular plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of covered salary. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the year ended June 30, 2009 were \$ 6,931 equal to the required contributions for the year.

(4) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenses by the Utility until used or paid. The Utility's approximate liability for earned vacation leave at June 30, 2009 was \$ 6,000.

This liability has been computed based on the rates of pay in effect at June 30, 2009.

(5) Related Party Transactions

The Utility had business transactions between Utility and Utility officials totaling \$ 7,191.

In addition the Utility loaned the City \$ 70,000 June 8, 2009, at 4% due August 7, 2009. The Utility also provided services to the City totaling \$ 77,816, which included electricity sales of \$ 44,324, water sales of \$ 972, collection services of \$ 2,520 and a wastewater treatment plant maintenance agreement of \$ 30,000.

(6) Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.

(7) Subsequent Events

In July, 2009, the Utility loaned \$ 120,000 payable in quarterly installments of \$ 10,664 including interest at 4% with the final payment due in July, 2012 to the City of Hopkinton. A portion of this loan was used to pay off a \$ 70,000 loan from the Utility to the City that came due in August, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

HOPKINTON MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS)-ALL PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2009

	Actual Modified Cash Basis	Adjustments	Actual Cash Basis	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts	\$ 616,068	(5,899)	610,169	593,800	593,800	16,369
Disbursements	580,376	(581)	579,795	592,850	592,850	13,055
Excess of receipts over disbursements	35,692	(5,318)	30,374	950	950	29,424
Other financing uses	--	(70,000)	(70,000)	--	75,000	5,000
Deficiency of receipts under disbursements and other financing uses	35,692	(75,318)	(39,626)	950	(74,050)	34,424
Balances beginning of year	1,118,207	(38,758)	1,079,449	1,130,954	1,079,449	--
Balances end of year	\$ 1,153,899	(114,076)	1,039,823	1,131,904	1,005,399	34,424

See accompanying independent auditor's report and notes to required
supplementary information - budgetary reporting.

HOPKINTON MUNICIPAL UTILITIES

Note to Required Supplementary Information - Budgetary Reporting

June 30, 2009

The City of Hopkinton annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Utility on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The City Council certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

During the year ended June 30, 2009 one budget amendment increased budgeted Utility disbursements by \$ 75,000. The budget amendment is reflected in the final budgeted amounts

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
Hopkinton Municipal Utilities:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of Hopkinton Municipal Utilities (a component unit of the City of Hopkinton, Iowa), as of and for the year ended June 30, 2009, which collectively comprise the Utility's basic financial statements as listed in the table of contents and have issued our report thereon dated December 4, 2009. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the cash balances at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Hopkinton Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hopkinton Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hopkinton Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily

identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects Hopkinton Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Hopkinton Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by Hopkinton Municipal Utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hopkinton Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hopkinton Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Hopkinton Municipal Utilities' responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit Hopkinton Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of Hopkinton Municipal Utilities and other parties to whom Hopkinton Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hopkinton Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 4, 2009

Dietz, Donald & Company
Dietz, Donald & Company, CPAs
FEIN 42-1172392

HOPKINTON MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted substantially all accounting functions are performed by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain maximum internal control possible under the circumstances. For instance, a Utility official could receive and then review bank statements before giving them to the individual responsible for account reconciliations.

Response - We will consider this.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize appointed officials whenever possible to provide additional control through review of financial transactions and reports.

I-B-09 Financial Reporting - As is common in small organizations, the Utility does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the Utility is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the Utility's financial statements, including related notes. The Utility then performs a review of the financial statements. However, in order to provide improved oversight of the financial reporting process, the Utility should establish review policies and procedures including the performance of some or all of the following:

1. Review the adequacy of financial statement disclosures.
2. Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.

3. Apply analytical procedures to the draft financial statements.
4. Apply other procedures as considered necessary by the Utility.

Response - We will consider this. However, we are not required to have an annual audit and normally do not prepare formal financial statements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

HOPKINTON MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF HOPKINTON, IOWA)
Year Ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget - Disbursements for the year ended June 30, 2009 did not exceed the amounts budgeted.
- II-B-09 Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-09 Travel Expense - No disbursements of Utility money for travel expenses of Utility officials or employees were noted.
- II-D-09 Business Transactions - Business transactions between the Utility and Utility officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Richard Harris, Vice Chair- person, Part-owner of Harris Electric Service	Repairs	\$ 7,191

The transactions between the Utility and Harris Electrical Service may represent a conflict of interest as the transactions do not appear to meet any of the safe harbor provisions of Chapter 362.5 of the Code of Iowa.

Recommendation - The Utility should consult legal counsel to determine the disposition of this matter.

Response - We will follow up on this matter.

- II-E-09 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- II-F-09 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.